

BRISTOL CITY COUNCIL
RESOURCES SCRUTINY COMMISSION
18TH OCTOBER 2013

Report of: NEIL TAYLOR

Title: BRISTOL ARENA PROGRESS REPORT

Ward: CITY WIDE

Officer Presenting Report: STUART WOODS

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RECOMMENDATION

There are no recommendations; this is a progress report.

Summary

The report provides an update on the project and some of the key findings of the draft Outline Business Case. It also covers the next steps towards securing a funding package for the project so that operator procurement can begin.

The significant issues in the report are:

The Outline Business Case confirms a funding shortfall on the project, which is being addressed.

The Council will need to decide on the type of operator model it requires ideally before operator procurement begins.

A number of approvals are needed by Council, Cabinet, and the Local Enterprise Partnership to secure the funding package and enable the project to move into procurement.

The Arena will be a key catalyst to development in the Bristol Temple Quarter Enterprise Zone and will bring considerable economic benefits to the City and Sub-region.

Policy

1. The Arena Project is a key objective for the Mayor. It will also act as a catalyst for the Bristol Temple Quarter Enterprise Zone.

2. Consultation- Internal and External

During the preparation of the Draft Business Case the Mayor and Executive Member (capital projects) were consulted, as well as the City Director and other officers.

During the preparation of the Draft Business Case consultees included Network Rail, The Homes and Communities Agency, Local Enterprise Partnership, cultural partners and the entertainment industry including potential operators.

3. Context

This briefing is to update Resources and Scrutiny on the key findings of the Outline Business Case (OBC) for the Arena produced by our consultants, and to explain the timing and approach for the approvals process to get the project to Cabinet and Council.

The previous feasibility study and the OBC show that the Arena industry is holding up, despite the economic downturn, and that demographically there is sufficient catchment for the City to support an Arena.

3. Recommendation(s) / steer sought:

No recommendations required at this stage.

4. Proposal

The preferred configuration for the Arena is horseshoe-shaped as this offers the most flexibility for future use, with a capacity of 12,000 (10,000 seated capacity). This scale and shape is supported by potential operators.

The capital cost of the Arena is calculated at £80,250,000, with an additional £8,110,000 for on and off-site costs. This cost plan was tested and confirmed at a workshop on 23rd September.

The current commercial structure for the project is that the capital cost is partially paid for by car parking income and a rental stream from the Operator. The Operator rental model is the preferred option as demonstrated

in the OBC. Officers are working to develop a car parking strategy to ensure that the anticipated car parking income is realised.

When other income and expenditure has been taken into account, this income is equivalent to approximately £37m and this leaves an estimated funding shortfall of c£52m. It is the Council's intention to seek approval from the LEP Board to prudentially borrow this sum against future revenue (retained business rate growth) from City Deal and the Economic Development Fund.

An initial important commercial decision is which type of operating arrangement the Council should adopt. There are three types, an Operator rental model, a management agreement model (within this approach there are a further range of options offering various levels of risk transfer), or a Joint Venture approach possibly via an arms-length company. Soft Market Testing for all three models has been positive. The consultants have evaluated these models on a 60% financial/ 40% qualitative split and the Operator rental model was the highest scoring model. The consultants were then asked to review the models with a slightly amended qualitative split, and the result was that the operator model came out first, but very closely followed by the Management Agreement model (they were nearly equal).

Two cabinet papers will be needed. A decision on the Operator model will need cabinet approval on 5th December to confirm the funding package and enable the contract documents to be prepared for Operator procurement beginning in March 2014.

The Arena project will then form part of the budget paper to enable a full discussion in the round to enable members to make informed decisions. This paper will go to Cabinet on 16th January 2014 and then on to full Council on 18th February 2014.

This Cabinet/ Council paper will require approval of the following recommendations:

- a. Approval to commit a total of up to £1.55m in project development costs (£250k already agreed in May 2013) if this cannot be secured from the LEP and City Deal.
- b. Approval to begin Operator procurement followed by a Design Competition and Building Contractor procurement.
- c. Approval and acceptance of the financial shortfall on the project, to be funded via City Deal.
- d. Approval to fund the capital project via prudential borrowing.

The Arena will be a key catalyst for the successful delivery of the Temple Quarter Enterprise Zone, and will bring considerable economic benefits to Bristol and the sub-region. An Economic Benefits report has indicated that apart from temporary construction and permanent job creation, there will be a cumulative net additional GVA of up to almost £56m during construction. Once the facility is open it will create 911 jobs at sub-regional level (804 in Bristol), and Gross Value Added of £110m for Bristol alone (£157.3m for the West of England).

5. Other Options Considered

Do nothing- One other option considered was the “do-nothing” option- the Arena is seen as providing a key piece of cultural infrastructure to the City, which cannot be achieved without this venue.

Build a cheaper or temporary facility- Neither of these approaches has been shown to be practical if we are to achieve the required level of operator rental and attract the right level of interest from operators, promoters and artists alike.

6. Risk Assessment

A risk register is in place and reviewed on a regular basis. There are a number of general project risks which should be noted, for example: slippage to programme, cost increases, site conditions, risk of procurement challenge etc.

Currently the top two risks are:

- a) Funding shortfall- no formal agreement in place for city deal funding, and no Cabinet paper to approve the prudential borrowing to finance the capital build.
- b) Gap funding is not achievable-project is not viable/does not move forward and BCC incurs abortive project development costs

7. Public Sector Equality Duties

The Equalities Officer advised no Equalities Impact Assessment was required for the May 2013 Cabinet Paper. Further advice will be taken for the Cabinet papers in December and January.

8. Legal and Resource Implications

Legal

We have appointed DWF external legal advisors to assist on the project.

They have commented initially on state aid. In terms of the operator model, the different models all contain different legal issues but all are recognised models for operating an Arena.

Legal advice provided by

Eric Andrews, Senior Solicitor

Financial

(a) Revenue

Revenue implications are dependent on the type of Operator model selected. If the Operator rental model is selected there should be no revenue costs once the Arena is operational. If the Management Agreement model is selected then the Council will pay an annual sum to the Operator, but will also receive income from the Arena.

In May 2013 Cabinet approved a £250,000 allocation from revenue budgets towards the anticipated £1.8m project development costs required. The Council will need to find the remaining £1.55m costs to take the project forward if these cannot be funded via City Deal. A second phase of internal and external recruitment will be needed to take the project into the delivery phase.

(b) Capital

Business rate growth from City Deal will take some time to accumulate, so in the short-term the Council will need to prudentially borrow the full project cost to build the Arena. There are a number of scenarios relating to how much this will cost the Council, but two that we are working with are as follows: Scenario 1, payback of the loan by Year 7 is £8.5m, payback by Year 15 is £14.9m (based on 4.25% rate from PWLB).

Financial advice provided by

Mike Allen, Business Partner

Land

The proposed site for the Arena is the former Diesel Depot site, which is owned by the Homes and Communities Agency. BCC will need to acquire the site at a nominal value, and a Letter of Intent/Heads of Terms will need to be in place for January Cabinet.

Personnel

Not applicable

Appendices:

None

**LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985
Background Papers:**

Draft Outline Business Case